February 7, 2024

TO: Each Trustee,
Board of Retirement

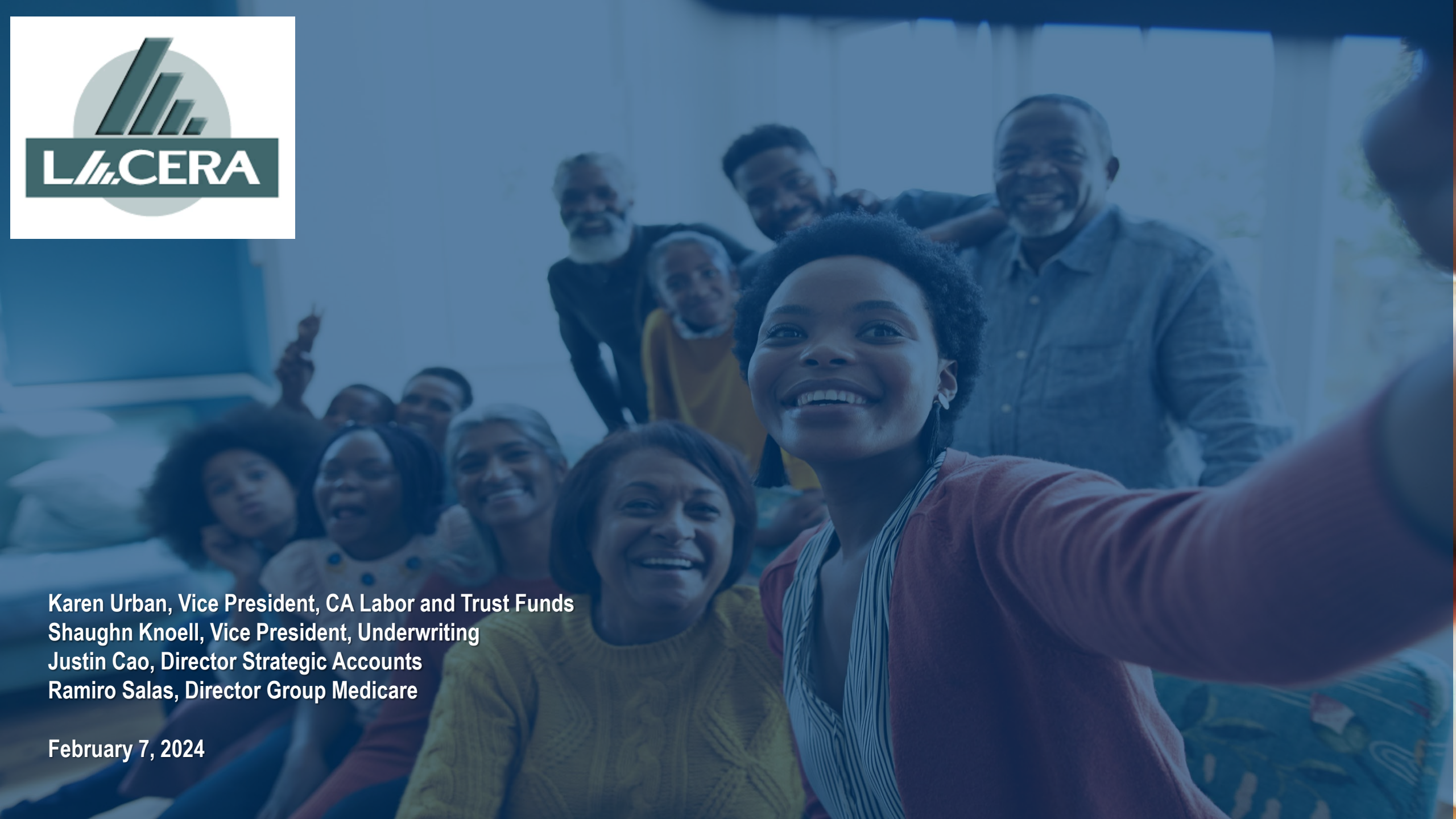
SUBJECT: Insurance, Benefits, and Legislative Committee on February 7, 2024 – Agenda Item V. B.

Following you will find supplemental information regarding the below-mentioned item.

V-B. 2024-2025 Plan Year Health Insurance Rate Renewals and Benefit Changes

Recommendation as submitted by Cassandra Smith, Director, Retiree Healthcare Division:
1. Approve the fiscal year 2024-2025 rate renewal proposal and mandatory contractual changes, listed by carrier;
2. Maintain LACERA's administrative fee at $8 per member, per plan, per month; and
3. Allow a one-time temporary waiver of the 6-month waiting period for members currently enrolled in the Anthem Blue Cross Prudent Buyer medical plan.
(Memo dated January 30, 2024)

Kaiser presentation was not included in the material.



Karen Urban, Vice President, CA Labor and Trust Funds
Shaughn Knoell, Vice President, Underwriting
Justin Cao, Director Strategic Accounts
Ramiro Salas, Director Group Medicare

February 7, 2024

Kaiser Permanente is different because we're an integrated care delivery system

- Health plan, medical facilities, and physicians work together to coordinate care.
- We're better at managing costs and utilization, eliminating unwarranted clinical variation, and reducing redundancies and inefficiencies.

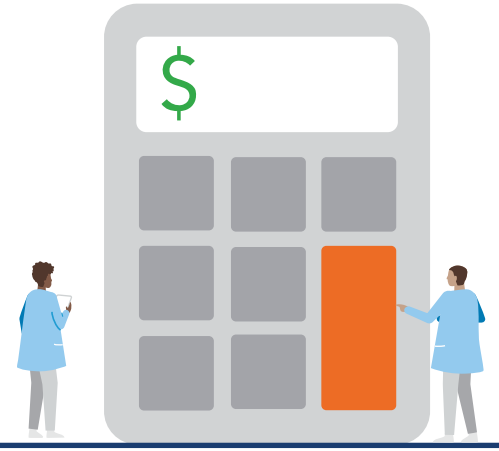
How we set our budget

At Kaiser Permanente, our budget is established to help ensure:

- Customer and consumer access
- High-quality care
- Affordability

Like hospitals and clinics, we budget expenses in advance to help ensure:

- Operation of our care delivery system
- Contracting of outside services
- Administration of our health plan, including capital expenses

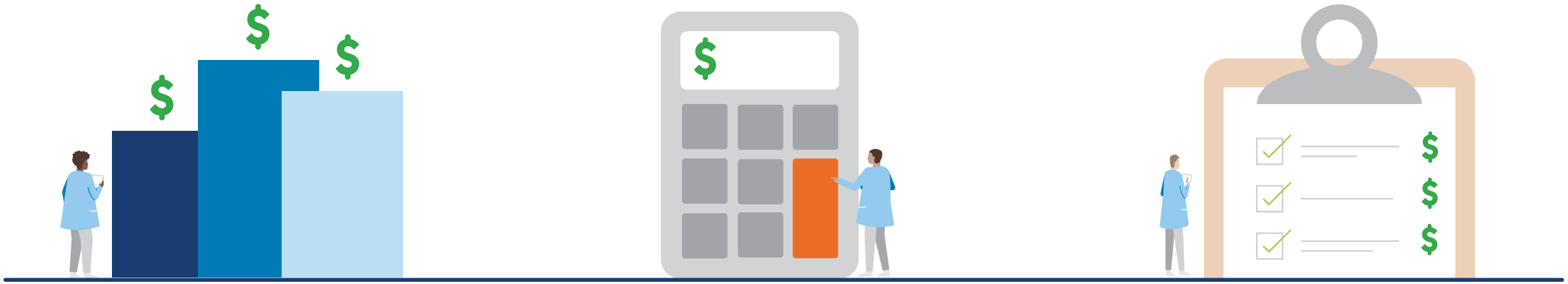


Our model brings together care and coverage

Permanente Medical Group + **Medical facilities** + **Health plan**

How we set rates

- Kaiser Permanente's unique delivery and financial model requires a unique approach to rating.

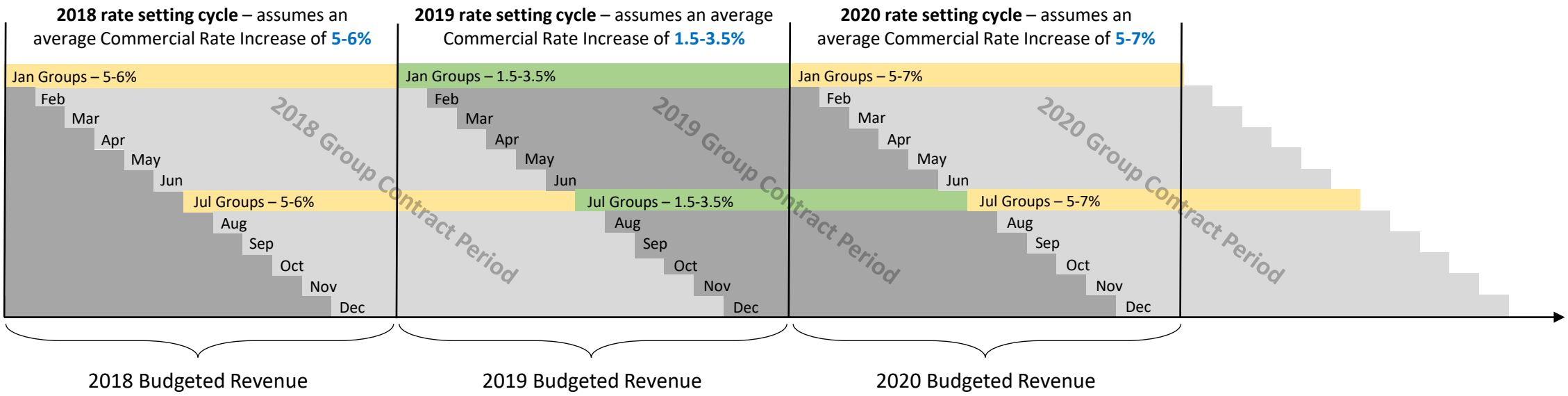


1. Determine the total amount of revenue needed to cover expenses to care for our members.

2. Calculate the amount of expected revenue.

3. Set group-specific rates. Our rating formula allocates rate changes consistently to reflect each group's utilization of health care services (or additional factors as a proxy for utilization) relative to the utilization of the book of business as a whole.

Illustration: simplified example of Kaiser Permanente's annual rate setting cycle considering that large commercial group customers renew throughout the year



Notes:

- assumed average commercial rate increases reflect actual KP rate increases for the time periods used in this example
- for simplicity, this example is showing all groups getting the average rate increase, actual rate increases will vary based on a group's own specific characteristics, e.g. claims experience, demographics, plan design, etc.

- Kaiser Permanente develops rating factors, through our annual rate setting process, designed to meet a calendar year's budgeted revenue target - which is necessary to run our care delivery system.

- The annual budgeted revenue, rate setting process, and rating factors, all take into consideration large commercial groups that renew at various times throughout the year.

Medicare Rating

CMS Reimbursement Changes and Group Medicare Rating

Community Rated

Kaiser Permanente uses a community rate for all of Group Medicare. This means the rate is developed using the total cost to deliver care for the entire Southern California Group Medicare population (Manual Base Rate) and subtracting the expected CMS revenue for that population. Rates will vary by geography as reimbursement rates vary by county. Additionally, adjustments are made based on the employer specific benefit plan design.

2024 Drivers of Medicare Rate

Changes in CMS Risk Model

- ICD-9 to ICD-10
- Changes in Hierarchical Condition Codes (HCC)
- Part D Reimbursements

Inflation Reduction Act (IRA) Implementation

2023

- $35 Limit monthly cost share on insulin
- Reduced cost for adult vaccines

2024

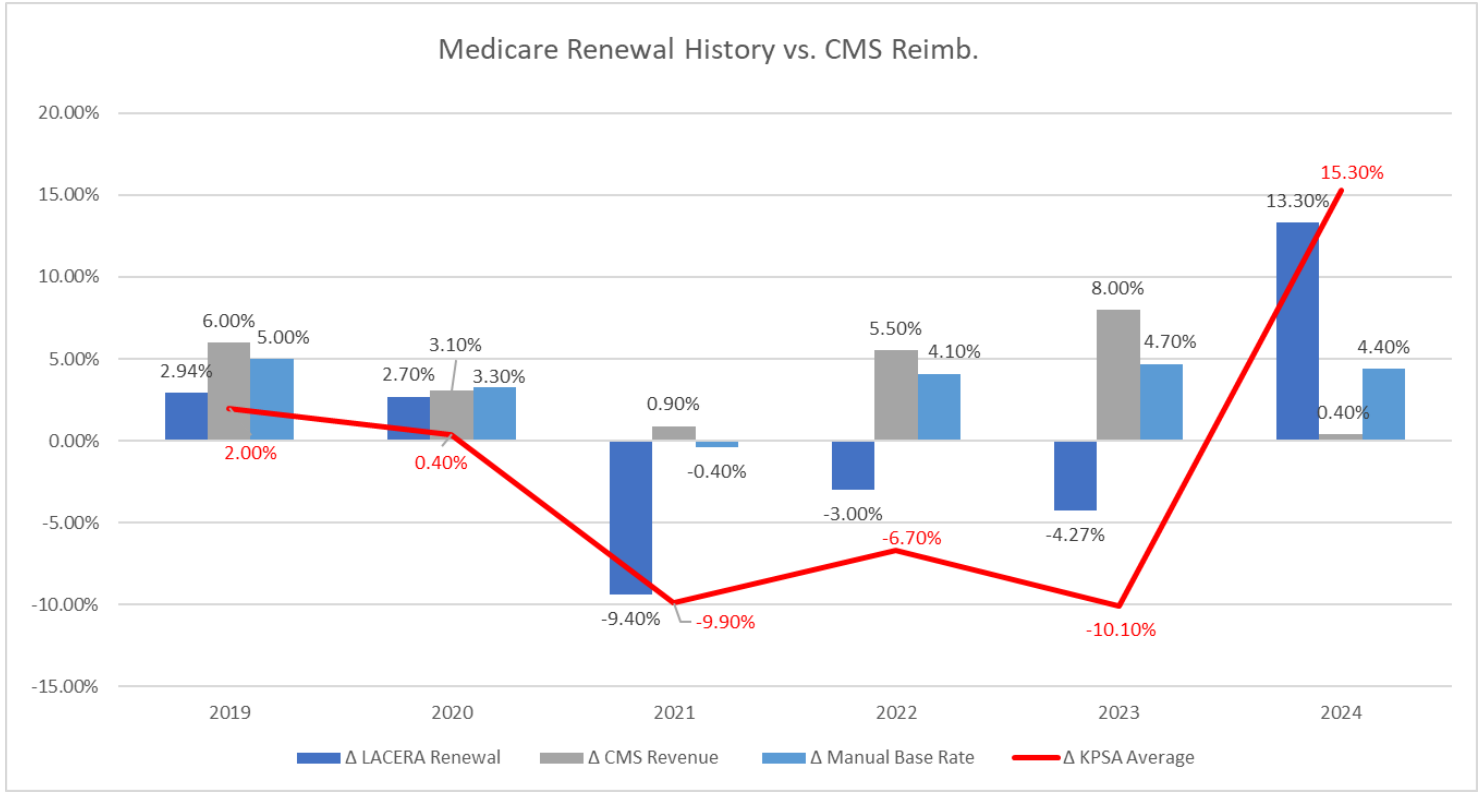
- Eliminates 5% coinsurance in Part D catastrophic coverage
- Expands Eligibility for Part D Low-Income subsidy

2025

- Adds $2000 out-of-pocket cap in Part D

2026

- CMS Negotiates cost for some higher cost Part D drugs
- Limits Medicare Part D premium growth to no more than 6% per year

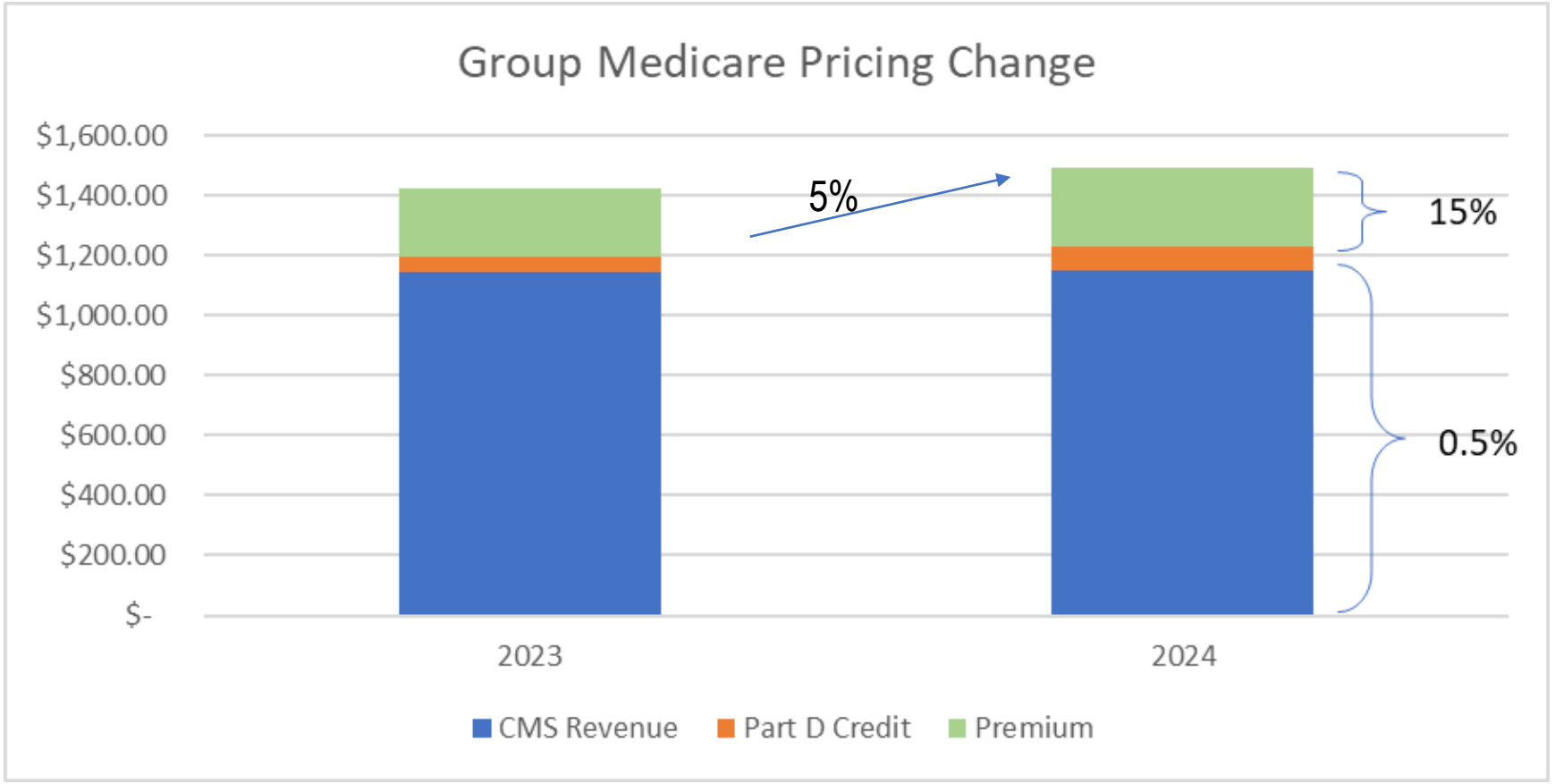


Average rate change from 2019 to 2024 (over 6 Years) is 0.38%

Δ CMS Revenue – Change in CMS Reimbursement to Medicare Advantage Plans
Δ LACERA Renewal – Change in rates specific to LACERA
Δ Manual Base Rate – Change in cost to deliver care to Group Medicare population
Δ KPSA Average – Change in average rate increase for entire Southern California Group Medicare population

Leveraging effect on Premium

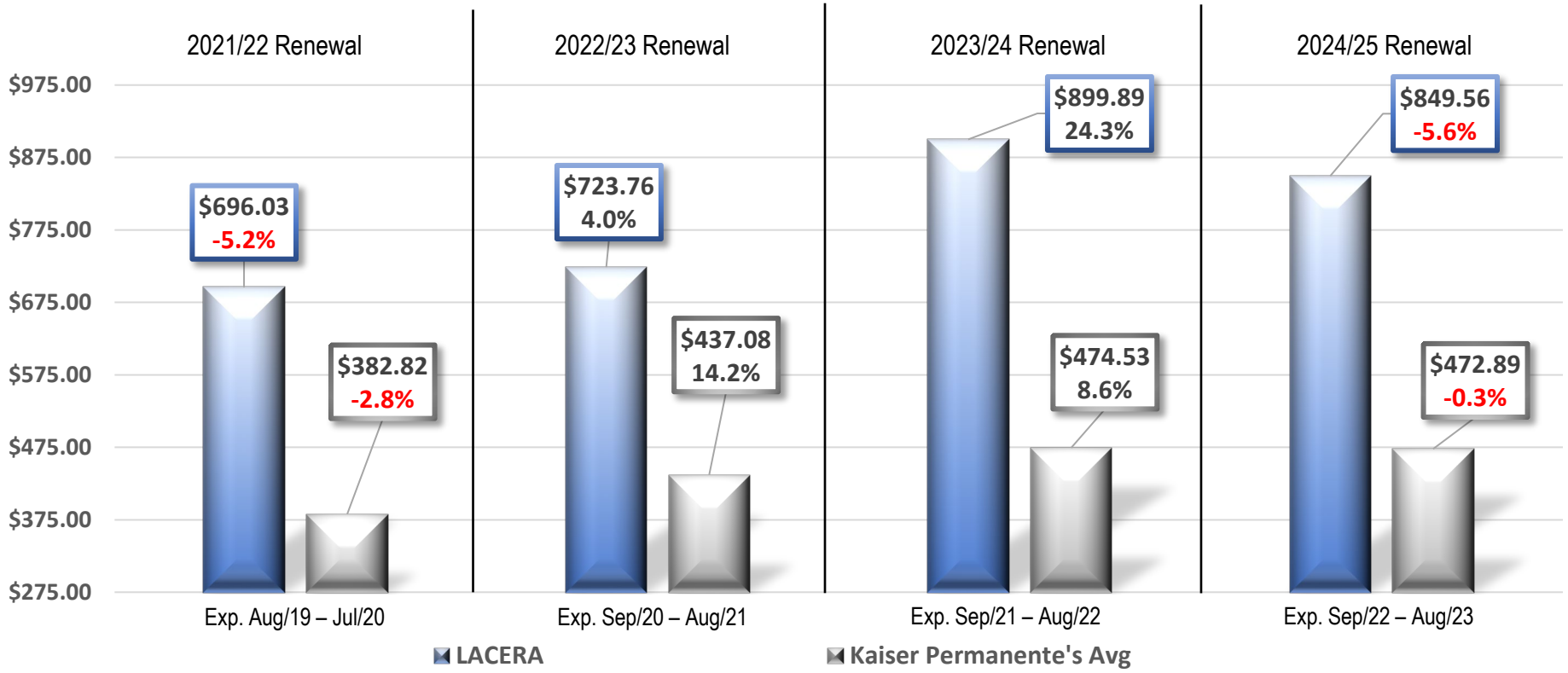
If Cost Trend is at 5% but total CMS reimbursement only goes up by 0.5%, impact to premium is closer to 15% increase.



Commercial Rating

Historical Paid Claims Cost PMPM: Non-Medicare

Note: LACERA paid claims PMPM is net of pooling



- LACERA's claims experience utilized to develop the 2024 renewal trended approximately 5% better than Kaiser Permanente's book of business average
- LACERA's 07/2024 renewal rate increase 6.8%.
- LACERA's 07/2024 renewal mainly driven by recent drop in utilization and cost.